

ACCOUNTS RECEIVABLE COLLECTION POLICY AND PROCEDURE WITHIN THE STATE'S CASH MANAGEMENT REVIEW BOARD

ADVANTAGES:

- Establishing the Cash Management Review Board (CMRB) as oversight authority with approval to write off accounts over \$100,000 would maintain a centralized authority over the accounts receivable and collection process.
- Provides stronger internal controls over the write off process for financial reporting purposes only.
- Consistency

DISADVANTAGES:

- Increase greatly the responsibilities of the CMRB.
- The state's current financial condition may limit proper funding and staffing for the increased responsibilities.

PLAN FOR IMPLEMENTATION

Date shown are dependent on the actions of the Legislature and are therefore subject to change.

PHASE 1: March 1, 2001 to April 30, 2001

- Prepare a draft of a Policy and Procedure Memorandum (PPM) establishing the state's accounts receivable collection policies and procedures.
- In accordance with administrative requirements, submit the aforementioned PPM for inclusion in the State Register.
- Study feasibility of implementing AFS accounts receivable module and modifications necessary to meet Bond Security and Redemption Fund requirements.
- Draft legislation necessary to establish Cash Management Review Board (CMRB) as oversight agency for accounts receivable collection function.

PHASE 2: May 1, 2001 to June 30, 2001

- Evaluate responses received from draft PPM and incorporate changes where necessary and justified.
- Prepare final rule for publication.
- Compile and develop information to draft legislation necessary to support the new policies and procedures in being effective and efficient as possible.

PHASE 3: July 1, 2001 to December 31, 2001

- Draft legislation to expand offset program, warrant intercept program, and other methods of collection.

PHASE 4: January 1, 2002

- Implementation of the new Accounts Receivable Policy and Procedure.

ACCOUNTS RECEIVABLE **POLICIES AND PROCEDURES**

I. Introduction:

A. Overview

1. The following policies and procedures are presented in a broad format to be used by state agencies to create their own detailed, agency-specific procedures, subject to approval by the Cash Management Review Board.
2. **Implementation of these policies and procedures is not predicated on the establishment of a central collection agency.** If such an agency is created, these policies and procedures will be modified to reflect its creation.

B. Purpose

1. To establish guidelines for accounts that are considered to be uncollectible.
2. To establish authoritative approval process for uncollectible accounts to be written off for financial reporting purposes **only**.
3. To establish a subsystem within ISIS for the purpose of centralizing and monitoring accounts receivable statewide.

II. Accounts Receivable Process Overview and Objectives:

A. Billing Process Overview and Objectives

1. To provide accurate and timely billing for amounts owed to the state.
2. To provide a means of tracking accounts receivables.
3. To provide billing capabilities for various types of receivables.
4. To provide the capabilities of monitoring the aging of accounts receivables, creating customer billings and statements based on the age of the receivable.
5. To provide internal control procedures and accountability.

B. Billing Event Overview and Objective

1. Recording the billing event will be performed by the agencies. Agencies will initiate the data entry, obtain approvals and process the billing.
2. Invoices and statements are printed at the agency location and sent to the customer on a timely basis (at least monthly).
3. Once a receivable has been incurred, an invoice should be prepared and sent to debtor within 5-10 working days.
4. Agencies are responsible to track their own receivables. Keep records of and all correspondences pertaining to the account.
5. The agencies will obtain complete and accurate information on each debtor in the event of default.
6. Each month a report is prepared for accounts that are over 30 days, 60 days, 90 days, and older. These accounts are reviewed for further action.
7. Inform and notify the debtor of additional fees, charges, and cost that may be incurred for failure to pay a debt.
 - a) fee that will be charged for NSF checks.

- b) interest on unpaid balance per month.
 - c) attorney or collection agency fees
 - d) late penalty fees
- 8. Agencies whose collections are based on taxpayers' records, and therefore do not issue invoices, are not subject to items 1, 2, and 3 above.
- C. Billing Receipts Overview and Objective
 - 1. Agency receives the money. Credit the appropriate customer's account.
 - 2. Deposit the money into the appropriate depository account.
See Policies and Procedure Manual - Section 6.7.2 – Revenue Policies.
 - 3. Timing is critical.
- D. Accounting Procedures Overview and Objective
 - 1. Agency should maintain a proper segregation of duties such as opening the mail, recording the receipt, and maintaining the accounts receivable records.
If not feasible, implement supervisory review and controls.
 - 2. A monthly Aged Trial Balance of all accounts should be checked and verified that the amount equals the balance in the General Ledger, if applicable.
 - 3. Obtain all necessary information on the debtor in the event of default.
 - a) Current home and work address and phone number
 - b) Social Security and/or Federal Employer Identification Number
 - c) Name of address of nearest relative or guardian
 - d) Date of birth
 - e) Credit references
 - f) Any other relevant information

III. Collection Process Overview, Objective and Policy Guidelines:

Note: The following procedures are very general and broad for the purposes of identifying area of concerns and general concentration.

- A. Collection Process Objectives
 - 1. To identify delinquent accounts.
 - 2. To pursue delinquent accounts by creating dunning messages on collection letters that are tailored to the agencies' need.
 - 3. To apply late charges and interest to delinquent accounts.
 - 4. To interface with other software to enhance the intercepting of payments.
 - 5. To provide an update customer account balance for any collection activity:
 - a) payments or NSF checks
 - 6. To provide the ability to write off uncollectible accounts with proper authority and documentation --- debt is still owed to the state.
 - 7. To establish and maintain Internal Controls.

B. Collection Process

1. Begins 30 days after the customer is billed or the debt is recognized.
2. Different messages would appear on the statement according to the status of the account to remind the customer of the amount owed to the state, any payments and/or adjustments made since the last printed statement.
3. Apply interest and/or late charges as statutorily prescribed.
4. With the proper documentation and approval, write off from the financial statements any account that is deemed uncollectible according to established procedures. The debt is still owed to the state.

C. Collection Follow-up Procedures:

1. 30 days after original due date send a minimum of one follow-up billing statement to debtor
2. 60 days after original due date send second billing statement to debtor with a warning (dunning) message.
3. 90 days after original due date prepare and send a collection letter to debtor.
4. 120 to 180 days after original due date:
 - a) Discontinue service and notify debtor by letter that service has been discontinued.
 - b) The agency will continue to collect amounts under \$5,000, by all available means – private collection agency, debt offset, etc.
 - c) Amounts over \$5,000, prepare billing and forward to the Attorney General's office with a request for assistance to collect.
5. 180 days after original due date:
 - a) Amounts under \$500, the agency's financial officer may approve the account to be written off or continue to collect (agency's discretion).
 - b) Amounts between \$500 and \$5,000, the agency will continue its collection process or assign the account to a collection agency.
 - c) Amounts over \$5,000, follow-up with the Attorney General's office on the status of the account.
6. If appropriate, contact past due customers by telephone at any time during the collection process to ensure collection.

D. Allowance for Doubtful Accounts

1. Each agency should establish an allowance for doubtful accounts to ensure that the agency's receivables are not overstated for financial reporting purposes.
2. The method used in establishing this account is at the agency's discretion. However, the amount should be based upon historical data or other pertinent information relative to the receivable. Sound accounting theory must be used at all times.

IV. Write-off of Uncollectible Accounts Process Overview, Objective and Policy

Guidelines:

A. Write-off Objectives:

1. An authorization to write-off an account does not constitute a forgiveness of indebtedness.
2. Debtor remains obligated to the state.
3. Write-off authorizes a state to:
 - a) Transfer an account to a dormant file.
 - b) Discontinue incurring the expense involved in collecting the account.
 - c) Discontinue reporting the amount as a receivable on the General Ledger.
4. To encourage proper write-offs on a fiscal year end basis.
5. The agencies will have the ability to write-off an account from their financial statements when it is evident that it is uncollectible.
6. To establish a board and/or committee within each state department to approve any write offs because accounts are deemed uncollectible.

B. Write-off Process:

1. Agencies must request an account to be written off through their respective board/committee, if established.
2. Amounts over \$100,000 require additional approval from Cash Management Review Board.
3. The request to write off a receivable must include the following information:
 - a) The name and address of the debtor
 - b) The age of the account
 - c) The nature of the amounts owed
 - d) The collection efforts that have been made
 - e) Any other pertinent information to give a full understanding of the request such as debtor's employment status, debtor financial status, debtor's accessibility, etc.
4. Approved write-off must be included in the Quarterly Accounts Receivable Report and retained in a dormant file and removed from current records.
5. For payments received on an account written-off, only the amount received is re-established.

C. Write-off Criteria:

1. The amount is uncollectible.
2. The write-off will not prejudice the position of the state.
3. All reasonable collection efforts have been exhausted – private collection agency, Attorney General's office and/or state's debt offset process.
4. The debtor cannot be located or a discharge of bankruptcy has occurred.
5. The applicable statute of limitations for collection of debt has expired.
6. The debtor is deceased and there is no estate.

V. Debt Intercept or Offset Process Overview, Objective and Policy Guidelines:

A. Warrant Intercept

1. Vendor/debtor is receiving a payment from the state, a request is made by a state agency to intercept the payment for a past due amount, the system automatically applies the payment to the past due amount, and the difference is sent to the vendor.
2. The state will require legislation to enforce this type of intercept.

B. Revenue Recapture

1. Past due amounts can be recapture through tax refund
2. Other means of recapture are lottery or gaming winnings
3. Both recapture programs are administered through the Department of Revenue.

C. Offsets

1. Currently have limited offsets against income tax refunds for specific programs of only a few departments.
2. Offset program could be greatly expanded to include all tax refunds, not just income taxes, unemployment benefits, or any other payments made by the state.
3. Additional legislation will be required to expand the offset program.

D. Garnishments, Liens, and Judgments - when such measures are deemed cost effective.

VI. Quarterly Reporting of Accounts Receivable Overview and Policy Guidelines:

A. Objectives

1. To establish a report that shows each state agency's accounts receivable balances and activities during the quarter.
2. To establish guidelines and procedures for the quarterly reporting.
3. To insure the quarterly report are consistent and as accurate as possible.
4. To have uniformity of reporting for all state agencies.

B. Procedures for Quarterly Reporting

1. Quarterly Activity (AR - 1) --- change format to the following:

- a) Beginning Gross Receivables
- b) Adjustments
- c) Billings for quarter
- d) Collections for quarter
- e) Write-offs for quarter
- f) Ending Gross Receivables
- g) (Less) Allowance
- h) Collectible Receivables

Note: Cited from state of Virginia

At this time OSRAP is receiving only the information provided from 1e through 1h on the quarterly reports.

2. Aging of Receivables using form AR - 2 and based on ending Gross Receivables for the quarter.

3. Collections Activity for Receivables over 180 days using form AR – 3
4. Write – Off Disclosure using form AR – 4
5. Comparison of Current Quarter to Prior Quarter using current form AR – 5.
 - a). This would be a new reporting requirement.
 - b). Categories of comparison should be Ending Gross Receivables, Authorized Write-offs, Accounts over 180 days rather than major revenue sources.
 - c). Explanation given for each comparison variance on the bottom of the page designated as “Explanation” for each category listed in 6b above
 - d). The other columns title respectively are Current Quarter Receivables, Prior Quarter Receivables, Increase/Decrease Amount, and Percentage of Change.
 - e). Information cited from state of Virginia.
6. At this time a comparison is prepared for each quarter; however, the accuracy of the explanation is questionable since the comparison is prepared by the Office of Statewide Reporting and Accounting Policy rather than the individual state agencies who are submitting their quarterly report.
7. Annual Comparison of Receivables using new form AR-6 which would be the same as the current AR-5 with annual columns instead of quarterly columns.